TOPICS

OFFICIAL BULLETIN FOR PERA-AFFILIATED PAYROLL/PERSONNEL STAFF **No. 99-2**

Legislature Passes, Governor Signs SB 99-90 to Improve Pension & Health Care Benefits

Senate Bill 99-90, signed into law April 16, 1999, contains several milestone improvements to PERA benefit program. The law takes effect at various times over the next two years or more. Improvements in the PERA program will be paid for without increasing member or employer contributions, and the fund will remain actuarially sound. Here is a brief recap of the provisions of SB 90. See the next PERA *Member Report* to be mailed in early May for more details.

The bill provides better pension portability with an improved automatic matching of contributions and interest.

- The bill increases the matching amount on PERA member contributions and interest when a member refunds her or his account prior to retirement eligibility or age 65 from the current 25 percent match to a 50 percent match, effective July 1, 1999. In essence, this increases the amount of employer contributions a short-term member takes with him or her when leaving PERA from 2 percent of pay (25% of the member contribution rate) to 4 percent of pay (50% of the member contribution rate) plus interest.

  Example: A 24-year old member who works two years with a total salary of $49,200 over that period will have paid $3,936 in contributions. The interest earned would be about $277 with a current match of about $1,050; the new match will be about $2,100.
- The bill increases the matching amount on PERA member contributions and interest when a member withdraws her or his account at age 65 or after retirement eligibility, e.g., age 60 with 5 years of service or age 55 with 20 years, from 50 percent to 100 percent, effective July 1, 1999. When the member leaves his or her account with PERA, it remains tax-deferred and accrues guaranteed interest, currently at 7 percent.

  Example: If the account in the above example is left with PERA after the member leaves the PERA-covered employment, it will grow to about $58,960 by the time the inactive member reaches age 65, using the 7 percent interest accrual. The current 50 percent match would provide an additional $29,480 to the former member; the new law will increase the matching amount to $58,960 for a total lump sum payment of an estimated $117,920—all for just two years of work. Or, the former member could opt to receive a lifetime monthly benefit at that time of about $720.
- For the Municipal Division, the matching amount on PERA member contributions and interest will be 40 percent when a member refunds prior to retirement eligibility or age 65 and 80 percent after then. When the Municipal Division trust fund meets a certain level specified by the Board, this match will increase to 50 percent and 100 percent, as other PERA members will have.

The bill improves the PERA Health Care Program by:

- Establishing a Health Care Trust Fund.
- Increasing the employer contribution rate designated to the health care fund from the current 0.8% of salary to 1.1% by reducing the rate designated for the pension trust fund by 0.3% on July 1, 1999. (Employers will not need to take any action since this will be handled by PERA when contributions arrive.)
- Doubling the amount of the Health Care Program subsidy for pre-Medicare retirees up to a maximum of $230 per month for a retiree with 20 or more years of service effective July 1, 2000. (The reduction of 5 percent for each year less than 20 continues and the subsidy will reduce to the current $115 or less when the retiree begins Medicare coverage.)
- Authorizing PERA to offer a Health Care Program to PERA-affiliated employers on a voluntary basis for their active PERA members, effective January 1, 2001.
- Allowing all Colorado retail pharmacies to join the Express-Scripts/ValueRx pharmacy network used by PERA for its self-insured plans and Rocky Mountain HMO.

The bill addresses some equity issues for two groups of members.

- State Troopers (including agents of the Colorado Bureau of Investigation) will have a contribution rate reduction from 11.5 percent of pay to 10 percent on July 1, 1999. Employers should reduce PERA member contributions for State Troopers and CBI agents in salary earned after July 1, 1999 (effective in their July 31, 1999, pay).
- Judges hired prior to July 1, 1973, will have the special benefit formula modified to include 2.5 percent of Highest Average Salary for each year of service over 20 with a 100 percent maximum (similar to provisions passed for other PERA members and retirees two years ago).

The bill sets a trigger for a match to voluntary defined contribution plan contributions by members that will begin when PERA becomes fully funded but not before January 1, 2001.

- When PERA is fully-funded, employers will use part of the money usually sent to PERA to match voluntary member contributions to their 401(k), 403(b), or 457 tax-deferred defined contribution plans. The initial amount available for matching contributions would be equal to 2 percent of salary plus half of the amount expected to reduce any overfunding of PERA over 10 years.

- PERA will determine the amount available for matching contributions each year, the maximum amount to be matched, and how the match is to be applied. Some years more than 2 percent may be available and, in other years no matching dollars would be available if PERA was not fully funded. PERA anticipates it will announce by September each year the amount to be matched during the following calendar year. The match will be allowed for anyone contributing to a defined contribution retirement plan account. The amount available for matching contributions would be different for each division.
- Since the Municipal Division has a lower employer contribution rate (10% of pay), the initial amount available for matching will be lower for members in that Division—it will be 0.5% plus half of the amount expected to reduce the overfunding over 10 years.

The bill also includes a provision to reduce the employer contribution rate when PERA is fully funded, but not before January 1, 2001.

- A permanent reduction of 1 percent of salary in contributions paid by State, School and Judicial employers to PERA—this reduces PERA employers' costs by more than $37 million a year.
- A temporary reduction in the contribution rate paid by State, School, and Judicial employers equal to one-half of the amount of money to reduce any overfunding of PERA.
- Municipal Division employers, because they have a lower contribution rate already, would only have a temporary reduction in cost equal to one-half of the amount expected to reduce any overfunding in that division.
- The temporary reduction rate would fluctuate every year and may not be available if the fund had an unfunded liability due to poor market returns or changes in benefits.

PERAGraphs

Legislature Passes Resolution Opposing Mandatory Social Security: The State Legislature passed a resolution nearly unanimously expressing its opposition to any federal mandate for Social Security coverage of state and local government and school employees. The resolution was adopted by the Legislature on March 5 after being sponsored by Sen. Ken Arnold (Westminster) and Rep. Dorothy Gottlieb (Denver). It had 55 cosponsors in the House.

No 401(k) Contributions for Retirees: PERA retirees who are working for your employer after retirement under PERA's working after retirement limits (110 days or 720 hours) are not eligible to contribute to the 401(k) Plan on their earned income.

Retirement Means Terminating Employment: Any provisions an employer has that allows a retiring PERA member to return to work must comply with the state law governing PERA. When a PERA member retires, he or she must have terminated employment to be eligible to begin receiving benefits from PERA. Some employers have set up "transitional retirement" plans that allow an individual to return to work. If there is any provision in the "transitional retirement plan" that states the employee will continue in his or her current assignment after enrolling in the plan, then the employee has not terminated employment and is not eligible for PERA retirement benefits. An employer may rehire an retiree (under PERA's post-retirement employment provisions) who has terminated employment and retired. The retiree could return to work as early as the day after the effective date of retirement.

Not all Payments to Employees Warrant PERA Contributions: Some employers have erroneously submitted PERA contributions on bonuses, unused sick leave converted to cash, and IRC Section 125 cafeteria deductions. Please review the new Employer Manual Section 2 that covers contributions and PERA-includable salary. If you have any questions, ask your PERA Employer Representative.

Extraordinary/Merit Pay Plans: All extraordinary or merit pay plans must be reviewed in their entirety by PERA before any contributions are to be remitted on the plan payments. Please ensure that these pay plans are submitted to PERA's Benefit Services Division for review. With the decision by the Board of Trustees in January to not include payments under experience and longevity, career stipend, or any similar plan as salary for PERA purposes, it is imperative that PERA review any extraordinary pay plans established by your employer. Revised pay plan guidelines are being prepared.

Hold on Refunds Until July 1: With the enactment of SB 90, terminating PERA members should not send their *Refund Request* to PERA until after July 1 to obtain the 50 percent matching amount on contributions and interest (or 100 percent match if they are age 65 or retirement eligible). Forms received prior to July 1 will be processed as normal and those former members may lose out on the additional amount they can receive by waiting two more months. PERA has taken a proactive approach to this issue since the bill was initiated by advising those who call about a refund about the possibility of a higher matching amount. Information was also included in a letter sent to each person requesting a refund and on the refund form itself.

Board Elections in May: There are five candidates for Trustee position elected by employees in the State category, three for the Trustee position in the School category, and five for the retiree position. (See the *Member Report* for more information.) Ballots will be mailed on May 3 to all State and School members who were on a *Contribution Report* on January 31, 1999. Members who joined PERA since then or who were temporarily not working that month may vote in the election but must request a ballot by sending a signed request to PERA's Deputy Executive Director for Support Services, 1300 Logan Street. Include full name, Social Security number, mailing address, name of employer, and signature in the request for a ballot. If the member works for more than one employer in two different divisions, he or she must request the division in which he or she wishes to vote. Please publicize the election via your e-mail or other communication devices and encourage members to vote. Ballots returned in past years have been less than 20 percent of those eligible to vote.

Don't forget to look us up on the Web—www.copera.org

5/18 (REV 4-99) 1.7M

Spreading the Word on Survivor Benefits: To provide more information to members about the "death-in-service" benefit, commonly known as survivor benefits, PERA now sends a letter and the *Survivor Benefit* pamphlet to all members when they reach one year of service credit.

Fixing Bad or No Addresses: Thanks to all of you who are helping us clean up some of our member records. As of March, PERA had no address for nearly 2,400 members. That means contributions were sent to us on these people but no *Member Information Form* was received. During that month and in April, lists were sent to employers or phone calls made to help gain addresses. We have reduced the "no address" number down to about 1,500 and know that further help from payroll and personnel offices will help us do even better. PERA needs a *Member Information Form* on each member for three reasons: the birth date is essential when we conduct our actuarial studies; a beneficiary is helpful when a member dies; and an address is helpful so we can provide the member with essential information about his or her account.

Unclaimed Property: At the end of December, PERA transferred 4,166 accounts of inactive PERA members totaling about $638,000 to the State Abandoned Property Fund. Through the Great Colorado Payback Program handled by the State Treasurer's Office, inactive members may claim their transferred funds anytime in the future. State law requires that accounts of nonvested members (those who have less than 5 years of service credit) that are unclaimed (the member has not contacted PERA within the last five years) be transferred to the Abandoned Property Fund, similar to bank and other financial accounts.

PERA aggressively researches addresses of inactive members using the Internet and post office lists, and working with the Internal Revenue Service to forward letters for us. In the future, we plan to begin publishing lists of names and sending those lists to employers. While the largest account transferred was about $14,000, the average account was only around $153. During the year, the Customer Service Center staff found more than 400 inactive members with accounts totaling $282,300. Staff tries to find inactive members who have larger accounts first.

Employers are encouraged to remind their staff that when they leave PERA-covered they may take a refund of their PERA account or leave it with PERA. If they leave it at PERA, they should contact PERA once a year to ensure their account won't be transferred. Inactive members may call or write PERA so that we can annotate their PERA file that they have contacted us.

Revised Publications: Payroll and personnel staff are being sent copies of publications revised since the last issue of *TOPICS* in January. Other readers may order these publications through the web page or by calling PERA. Revised publications include:

- PERA 1999-2000 Health Care Program including Benefits Comparison Tables (2/106)
- PERA 1999-2000 Health Care Program Overview (5/39)
- PERA & Social Security (5/36)
- Leaving PERA-Covered Employment (5/11)
- Information for New PERA Members (5/57)
- 401(k) Plan Brochure (14/20)

Health Care Program Open Enrollment: Open enrollment in PERA's Health Care Program extends between May 1 and June 4, 1999. During this period, retirees and other benefit recipients may enroll, transfer to other plans, or add dependents. Health Care Program materials are being sent to Personnel offices with this issue of *TOPICS*. Note that the booklet no longer includes summaries of benefits and that all benefits are summarized in the comparison table for pre-Medicare and Medicare participants. This year's Program sees a termination of health care coverage through QualMed HMO, and extension of PacifiCare HMO and Rocky Mountain HMO to the eastern portion of the state and a few mountain counties. Employers are invited to attend any of the 50 open enrollment meetings held in May throughout the state. See the PERA Web site for locations or call the PERA Customer Service Center.

Replacement Benefit Arrangement: Employers may request a copy of the *Replacement Benefit Arrangement* that was developed by PERA to provide for substitute payments to members who retire with a PERA benefit that is larger than allowed by the Internal Revenue Code. Some copies will be distributed to the chief financial officers at the larger PERA employers.

401(k) Plan Continues to Grow: Another school district has arranged to begin making matching contributions to the PERA 401(k) Plan for any member participating in the program; bringing the number of employers who match the 401(k) Plan contributions to 11. As of February 1999, the Plan had more than 20,700 accounts with some 15,900 accounts receiving contributions. About 1,500 accounts are held by former members and retirees, and more than 3,350 accounts have no contributions being made to them currently. The market value of the Plan is more than $368.4 million with more than $5.7 million being contributed monthly to the Plan. Plan participants have 2,113 outstanding loans on their accounts.

401(k) Plan Document Change: The Board of Trustees approved a change in the 401(k) Plan Document that eliminates restrictions on employer matching to PERA's 401(k) Plan. The change permits an employer to make discretionary employer contributions to the 401(k) Plan for all, some, or only one of its employees.

401(k) Returns for First Quarter 1999

	Qtr. Ending	Last 12 Months	Annualized 5-Year Avg.
Money Market Fund (Northern Trust)	1.25%	5.53%	5.51%
Short-Term Bond Fund (PIMCO)	0.79%	6.37%	6.99%
Long-Term Bond Fund (PIMCO)	(0.04)%	7.58%	8.40%
Balanced Fund (Dodge & Cox)	2.81%	2.91%	15.07%
Growth & Income Stock Fund (PERA)	6.17%	10.31%	23.14%
Growth Stock Fund (Fidelity)	5.83%	23.94%	23.39%
International Stock Fund (American Funds)	6.39%	8.37%	12.85%

5/18 (REV 4-99) 1.7M

Working Against Mandatory Social Security; Update on Other Federal Issues

PERA staff and Board members continue to work diligently to get the message out that state, school and local government employees should not be mandated into the Social Security system. Recent developments include: a Denver Post editorial supporting PERA's position, a Rocky Mountain News column supporting PERA's position, a letter signed by five of the state's six U.S. representatives sent to the Speaker of the House of Representatives, and a resolution adopted by the State Legislature opposing mandatory Social Security. **Employers are encouraged to contact their state representatives and thank them for their support or to provide details on how mandatory Social Security for new hires would affect them.**

U.S. Senators and Representatives who have been involved in the discussion of Social Security reform seem to be frustrated at the lack of progress toward a viable reform bill. While talks and hearings have continued, it isn't certain whether changes to Social Security will get off the ground in 1999. House Ways and Means Committee Chairman Bill Archer hopes to present at least the outline of his proposal by the end of April. But, it likely will allow workers to direct a portion of their FICA taxes into individual investment accounts, which the Administration opposes. The Administration is reluctant to put forward a detailed reform proposal.

In view of all this, a key Senate aide told a Denver audience recently that it is "tough to see much being done" on Social Security this year. Instead, how much of the budget surplus to save for Social Security may be the focus of discussion.

In other activities, Senators Voinovich (OH) and Feinstein (CA) are asking their Senate colleagues to join them in signing a letter to President Clinton. The letter urges Clinton to exclude mandatory coverage for public employees from any Social Security reform plan. Colorado Senators Allard and Campbell have both agreed to sign the letter.

Representative Bob Schaffer recently asked all Representatives in the Colorado delegation to sign a letter addressed to the President, Speaker Hastert, and other congressional leaders. The letter was sent April 5 and urged these leaders to "exclude mandatory coverage for public employees from any Social Security reform legislation." Representatives Diana DeGette, Joel Hefley, Tom Tancredo, and Mark Udall all joined Schaffer in signing the letter.

Congressman Scott McInnis decided not to sign the letter because he believes that Ways and Means Chairman Archer does not like to see Committee members taking hard and immovable stands on specific parts of Social Security at this point in the process. However, Archer has said that he does not like mandatory coverage, and Rep. McInnis says he will talk to Archer personally and tell him that he remains opposed to mandatory Social Security for public employees. McInnis believes he can be more effective in this way.

In visits of PERA staff with congressional offices in March, some delegation members asked questions about the proper timing of the letter and on the subject of the windfall and offset reductions to Social Security. PERA answered that a letter from the delegation can help us get the subject of mandatory coverage off the table, or at least raise serious doubts about it, before reform proposals are discussed in earnest. Also, PERA feels that the windfall and offset provisions assure that public employees do not receive preferential treatment in Social Security benefits. While these provisions should not be repealed, they may need to be adjusted in the future.

Rep. Charles Stenholm (TX) indicated in an interview that he plans to introduce reform legislation again this year. Last year's bill included Rep. Kolbe (AZ) and Senators Gregg (NH) and John Breaux (LA) as sponsors, and included an increase in the retirement age and mandatory coverage in its provisions. Stenholm said recently that the new version of the bill probably would increase the retirement age only gradually. The interview also reported that Stenholm "and other bill sponsors plan to 'back off' on the provision in the original bill that would mandate Social Security coverage for all new state and local hires." This is consistent with Sen. Breaux' comment that he would not include mandatory coverage in any bill he co-sponsors.

Pension Portability

A bill sponsored by Senators Roths (DE) and Baucus (MT), the Savings Opportunity Act (S. 646), would:

- Raise the maximum annual contribution to a traditional or Roth IRA from $2,000 to $5,000, and index the limit to inflation. Income caps for these contributions would be eliminated.
- Raise the maximum annual contribution for 401(k) and 403(b) plans from $10,000 to $15,000 and 457 plan annual contribution limits would be raised from $8,000 to $12,000.
- Authorize Roth 401(k)s and 403(b) plans, funded by voluntary after-tax contributions.
- Allow employees who are age 50 or older to contribute 150 percent of their usual annual limit. For example, $7,500 to an IRA instead of $5,000.

Congressional sources have said that pension provisions, especially those improving portability, might have a good chance of being included in a tax bill this year. However, a bill with significant tax cuts would have to be negotiated with the Administration or face the possibility of a veto. The Administration is skeptical of increasing the annual contribution limits to 401(k) and other plans because in its view they mostly benefit the highly compensated.

Medicare

The Bipartisan Commission on the Future of Medicare wasn't able to agree on a recommendation to Congress for changes to the Medicare program. Without changes, the Part A trust fund is projected to become insolvent in about 15 years.

A proposal by Senator Breaux (LA) had the support of a majority of the Commission, and will be introduced in the Senate this spring. Meanwhile, President Clinton plans to submit the Administration's Medicare reform proposal to Congress this year. The President has recommended setting aside 15 percent of the budget surplus over the next 15 years for Medicare. He also wants to include a prescription drug benefit in Medicare. In addition, he wants reform efforts to protect low-income Medicare beneficiaries, and he opposes an increase in the eligibility age above age 65.

5/18 (REV 4-99) 1.7M